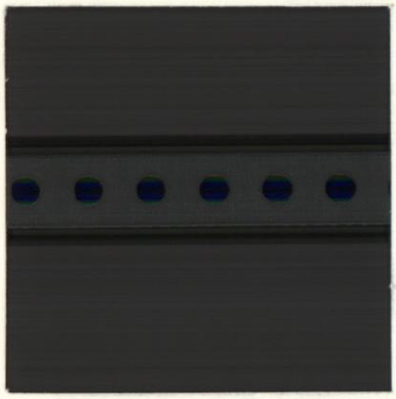
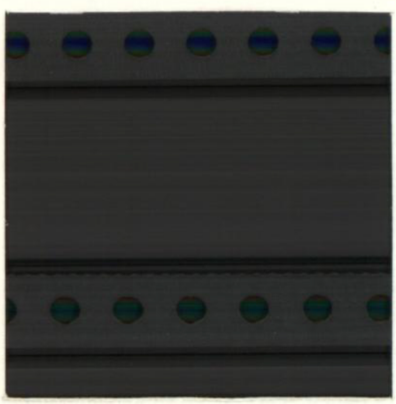
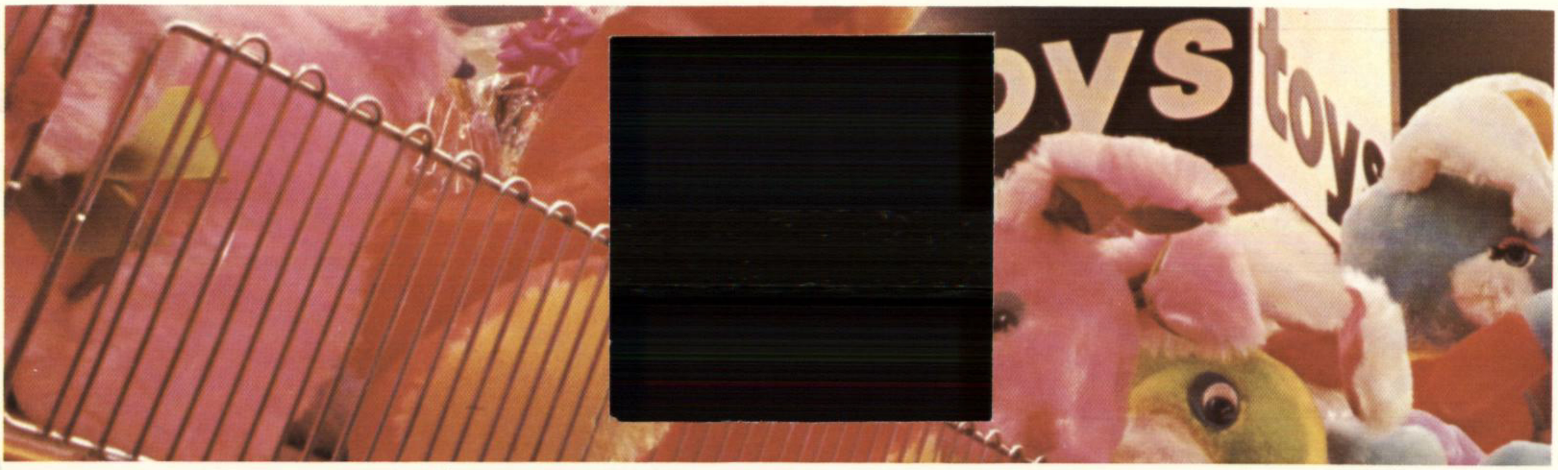
THE STOP & SHOP COMPANIES ANNUAL REPORT 1971



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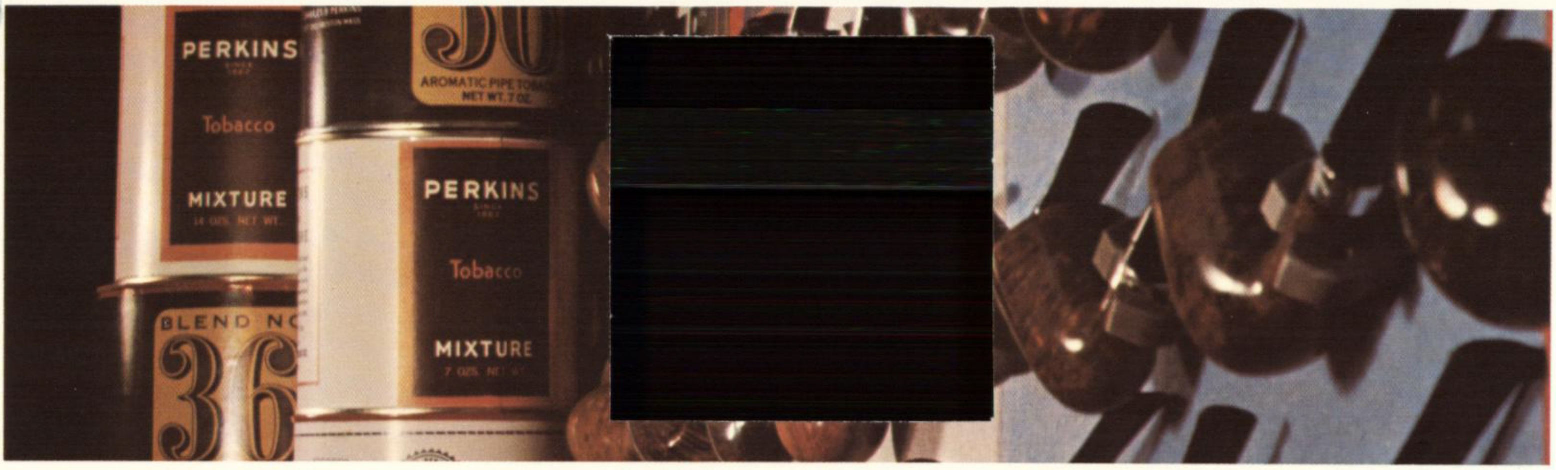
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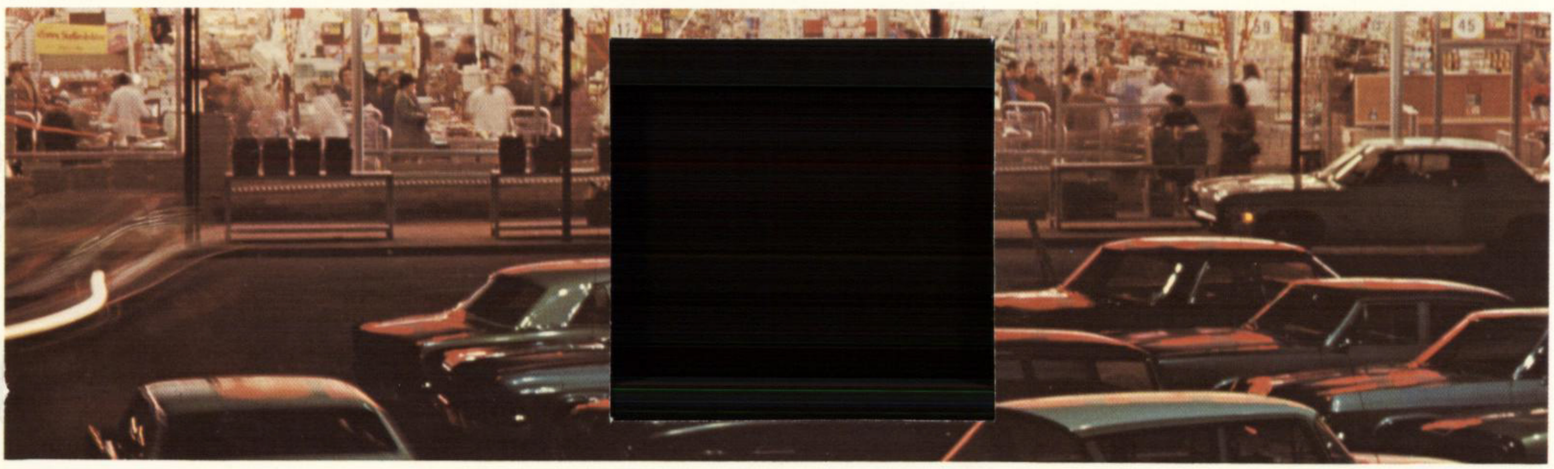

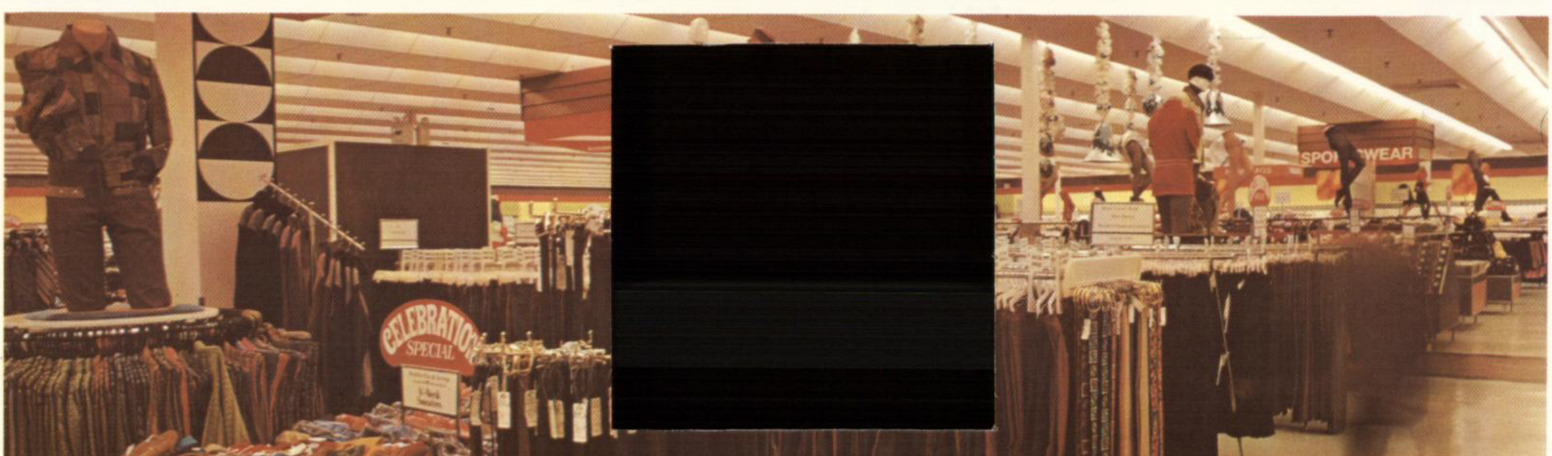


RSTS

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COMPARATIVE HIGHLIGHTS

	52 Weeks Ended	
	January 29, 1972	January 30, 1971
	(In Thousands)	
Sales	$907,734	$789,950
Earnings:		
Before taxes on income	4,500	10,052
After taxes on income	3,561	5,637
Reinvested in the business	729	2,819
% of net operating earnings to sales	0.39%	0.71%
Per share of common stock based on average number of shares outstanding during the year	1.13	1.80
Cash dividends paid	2,832	2,818
Cash dividends per share of common stock	.90	.90
Current assets	98,868	91,900
Current liabilities	62,373	41,841
Working capital	36,495	50,059
Current ratio	1.59	2.20
Stockholders' equity	63,153	62,150
Stop & Shop Supermarkets in operation at year end	156	149
Bradlees Department Stores in operation at year end	53	51
Medi Mart Drug Stores in operation at year end	18	13
Perkins Tobacco Shops in operation at year end	33	28
FunStop Toy and Leisure Time Products Stores in operation at year end	3	1

LETTER TO STOCKHOLDERS

Sidney R. Rabb, Chairman of the Board

Irving W. Rabb, Vice Chairman of the Board

Avram J. Goldberg, President

Our 57th year was both difficult and rewarding. The results in the aggregate were disappointing. However, after the first quarter loss, we achieved gradual but steady improvements in each succeeding quarter, as compared with the preceding year.

Our Bradlees, Medi Mart and Perkins Tobacco Companies showed improvements in their performance during 1971. Our Stop & Shop Supermarket Company did not achieve everything that we had hoped. As we reported to you in our 1971 first quarterly statement, in order to maintain our position and to meet intensifying competition, on April 4 we reduced 3,500 grocery prices in our 62-store eastern Massachusetts area. We stressed that initial advertising and promotional expenses were high, but that our first sales reports were encouraging. In fact, despite continuing serious distribution difficulties, not completely resolved until the end of the fiscal year, we made excellent progress in supermarket sales throughout the year. However, our efforts to re-establish satisfactory profit margins were delayed substantially by imposition of federal price controls in August of 1971.

These major economic facts are reflected in our final figures for the year. Our overall 1971 sales increased 14.9 per cent,

from $789,950,000 to $907,734,000. However, net operating profits dropped from $5,637,000 to $3,561,000. Earnings per common share were $1.13, compared to $1.80 of a year ago.

Net Sales:	1971	1970
	(In Thousands)	
Stop & Shop Supermarkets	$683,020	$603,662
Bradlees Department Stores, including FunStop Stores, exclusive of licensees' sales	$200,103	$170,108
Medi Mart Drug Stores	$ 19,545	$ 12,310
Charles B. Perkins Tobacco Shops	$ 5,066	$ 3,870
TOTAL:	$907,734	$789,950

DISTRIBUTION. By March of 1971 we had partially solved our distribution problem with the reopening of our Readville dry groceries Distribution Center. Although we were then able to resume a more aggressive market position, we did not attain total grocery distribution effectiveness until the start of the 1972 fiscal year. After the Readville reopening, we had to make the required design alterations to our mechanized North Haven, Connecticut distribution center, as reported to you at midyear. We absorbed the added expenses of these alterations. Both distribution centers are now operating as full line warehouses, and each is serving approximately half of our supermarkets.

We have received insurance payments on account of the loss from the fire at our Readville Distribution Center in August of 1969, aggregating $19,202,000. Final settlement of our claim was still pending at year's end. (See footnote five, financial statements.) Although we have made reference to the intangible negative effects of this fire on our operational capacity, our profits and our people, we cannot overemphasize the admiration we have for the strength, spirit and resourcefulness shown by our thousands of affected employees throughout a protracted period of strain.

GROWTH. On the positive side we have good reason to consider the year rewarding. Our supermarkets' distribution system is returning to normal efficiency. Our Marlborough Meat Processing and Distribution Facility was completed and operations began in December. The quality control and sanitation procedures are working as planned. As 1972 began, we introduced our Quality Protected Beef and "Clean and Cold" meat programs into our Rhode Island stores. We are extending the program on a pre-determined schedule, and we expect to supply all Stop & Shops from this facility by year's end. Our Bradlees Company continued to show steady improvements in profitability, and our several new 100,000 sq. ft. stores, prototypes for future Bradlees, have received excellent acceptance.

NEW STORES. The Stop & Shop Companies maintained its planned growth pace during the year, as you will note on the following pages. We opened twenty-nine new stores in 1971. These include eleven Stop & Shop Supermarkets, four Bradlees, five Medi Mart Drug Stores, two FunStop Leisure Time stores, and seven Perkins Tobacco Shops. Seven Stop & Shops underwent major remodelling during the year, as did four Bradlees.

Early in 1972 settlements were negotiated with two unions representing together more than 10,000 of our supermarket employees. Terms of these and six other successfully concluded contracts are subject to Pay Board approval.

MANAGEMENT CHANGES. Several executive changes took place during the year. President Donald A. Gannon retired on October 22. His 46 years of experience and his gifts of forthright expression and genuine leadership made an outstanding contribution to the growth of our Company. Avram J. Goldberg, who joined us as a part-time store employee in 1948 and had been Executive Vice President since 1968, became President.

In our Bradlees Company, C. Robert Peacock, Bradlees Controller since 1968, was named Vice President, Operations and Accounting.

Robert J. Levin, President of the Perkins Tobacco Company, assumed additional responsibilities as Vice President and General Manager of our Medi Mart Drug Stores. Stephen C. Espo was named Perkins' General Manager.

As of March 20, 1972, Mrs. Carol R. Goldberg, Vice President of The Stop & Shop Companies and North New England Market Manager for Bradlees, was appointed Vice President and General Manager of the Boston Supermarket Division. Vice President Spyros A. Gavris, formerly Boston Division General Manager, has been named Vice President for Meat Operations.

In January of this year Harold Hahn, Sr., President of the Harold Hahn Company, retired after fifty years in the toy business. We will miss him, and wish him many happy years of continued good health.

THE FUTURE. We look ahead to the balance of 1972 and beyond with a renewed, albeit cautious, sense of confidence. Our central meat processing facility is supplying growing numbers of Stop & Shop supermarkets with the finest quality meats we have ever offered to our customers. For the first time we now have the benefits of two full line grocery distribution centers to service our supermarkets. Our Bradlees Company demonstrates with increasing evidence that its fashion, quality and value emphases are closely attuned to consumer desires in the seventies; and our Medi Mart Drug Stores are achieving growth and expected sales.

However, we are operating during a time of national economic uncertainty. We endorse and are complying wholeheartedly with our government's efforts to lessen the damaging effects of continued inflation, and we look forward to the benefits of our new efficiencies to achieve significant improvements during the current year, and beyond.

In spite of the difficulties we have experienced this year, the cooperation and loyalty of our people were testimony to our concept that "people are our most important asset." For this we are most appreciative.

Sidney R. Rabb
Chairman of the Board

Avram J. Goldberg
President

THE STORY OF THE YEAR

The 57th business year of The Stop & Shop Companies Inc. was one of varied dimensions:

STOP & SHOP SUPERMARKETS. During the year the Company's largest division opened eleven new supermarkets, including three relocations; closed four older stores, and completed seven remodels. At year's end 156 supermarkets were in operation.

New supermarket openings were balanced throughout our northeast trading area: Branford, Waterford, Naugatuck, Stratford and Danbury, Connecticut; South Fall River, Gardner, Westborough, Marlborough and Hyde Park, Massachusetts; and Garwood, New Jersey.

Major remodelings were completed at Concord, New Hampshire; Norwalk and Wallingford, Connecticut; and Boston, Peabody, Falmouth, and Springfield, Massachusetts.

Vice President Richard F. Spears sums up 1971 as a successful year in terms of meeting established goals: "We knew at the start of 1971 there would be many months of adjustments before our two distribution centers would be working efficiently. Our first priority was reopening our original Readville facility, to relieve storage, shipping and general work pressures on our newer North Haven warehouse. Once it opened, in March, we could close leased – and expensive – warehouse space in Hartford, and plan the best inventory and shipping balance between North Haven and Readville, while completing interior work in Readville.

"Not until storage and shipping demands lessened at North Haven could design alterations be undertaken. We achieved the goal – to receive and distribute from two full-line warehouses by year-end 1971."

Spears reports also that "although still maturing, the program initiated in late 1970 to reduce intermediate levels of supervision between headquarters and store level management, and to encourage more independent decision making at store level, has made significant progress."

Stop & Shop's Consumer Programs continued to produce helpful assistance for literally millions of our customers during the year. We realized full scale unit pricing of more than 7,000 food items in each of our stores; we introduced simplified caloric value tables on labels of hundreds of our Stop & Shop brand fruits, juices and vegetables. Our Consumer Hotline – helpful advice on information sources, nutritional values, unadvertised specials, low cost substitutes, etc. available at the dialing of a special phone number – helped more than 3,000 of our customers during the year. We conducted numerous "Nutrition Teach-Ins" at selected Stop & Shop supermarkets. And finally, we broadened the influence of our successful Consumer Boards of Directors, initiating frequent "mini-boards" for local store managers and smaller groups of housewives. Chief executives of several nationally known food manufacturing firms joined several of our periodic Consumer Board meetings for active discussions.

The new business year appears to be one of real promise. We are optimistic for several specific reasons: now, for the first time since the Readville Distribution Center fire of mid-1969, we have the capacity to deliver groceries in proper family groupings to the stores, with resulting improvements in our in-stock ratios, in payroll scheduling, and in our entire warehouse and store-level service efficiency. Invoices and merchandise again are moving together – for better control of inventory levels and shrinkage. We are now free to plan far greater emphasis on profitable categories, such as frozen foods, where we have introduced newly developed employee training and stock control programs. But most important, rather than meeting regular "merchandise crises," our store managers can focus their attention where it belongs, on managing the total store.

BRADLEES DEPARTMENT STORES continued to reshape store and management structure to prepare for growth challenges ahead. President Robert J. Futoran reports that three new 100,000 sq. ft. stores, with far greater depth and variety of merchandise, were opened during the year, in South Fall River and Springfield, Massachusetts; and Stratford, Connecticut. Two existing stores, in Norwalk, Connecticut and Brockton, Massachusetts were enlarged to this same size. Their success reaffirmed Bradlees' decision to establish this size, decor and merchandise philosophy as the standard for the future.

Five Market Managers now supervise overall operations of 54 Bradlees throughout New England, New York and New Jersey. All additional supervisory functions, formerly the task of several layers of middle

management personnel, are now the responsibility of the Market Managers and the Store Managers. The results, reports Futoran, include "greatly shortened chain of command; faster communications and response at store level; and an 'entrepreneur' spirit lacking in the past.

"We're convinced more than ever that the key to success is the encouragement of skilled, responsive and highly autonomous store level teams, with minimum supervision, and with direct lines of communication to the buying organization."

Bradlees' sales and earnings showed impressive improvements for the year. Futoran points out that "a major effort was made to increase volume of our hardlines departments without sacrificing our strong apparel business or our gross margins." Result: a solid advance in sales-per-square foot, and an overall sales increase in identical stores.

During the year, the Harold Hahn Toy Company, in anticipation of the retirement of Mr. Harold Hahn Sr. at year-end 1971, was incorporated into a newly formed Bradlees Leisure Time Division, consisting of toys, hobbies, sporting goods and seasonal merchandise.

FUNSTOP TOY AND LEISURE TIME PRODUCTS STORES. Our youngest retailing division, now under Bradlees' overall supervision, continued its carefully planned entry into several new and exciting markets: toys, hobbies, juvenile furniture, bicycles and sporting goods. Two new stores in Waterbury, Connecticut and Springfield, Massachusetts continued FunStop's original merchandising philosophy of a broad retailing base, with the major effort devoted to developing full-service specialty departments. Brand names are featured; and personnel are chosen for background and experience. Among employees are a fully qualified ski instructor and former professional football player. General Manager Anthony McAlear stresses that "FunStop means *full* lines of merchandise: we carry 70 types of bicycles; over 40 different infants' cribs; 30 lines of carriages and strollers; and close to 50 kinds of rods and reels." Hockey skates aren't just "sold" at FunStop, he reports – they're as closely fitted as shoes, by knowledgeable personnel.

Growth in 1972 will remain deliberately slow in pace, as management studies sales, economic trends, customer attitudes, product mix – the better to place "The Good Time Stores" right in line with the country's fast growing leisure time market.

MEDI MART DRUG STORES accomplished its 1971 goal of steady growth in existing marketing areas and the start of operations in Massachusetts. Medi Mart Vice President Robert J. Levin reports that five new drug stores were opened during the year, in Branford, Waterford and Stratford, Connecticut; Garwood, New Jersey; and Roslindale, Massachusetts.

The heart of Medi Mart's operating philosophy from the Division's inception in 1967 has been the availability of a full assortment of competitively priced prescription drugs. A record number of prescriptions were filled in 1972, including a growing proportion of repeat prescriptions – a vitally important yardstick of community acceptance.

Today's Medi Mart shows subtle but important evolutionary changes as the growing chain adjusts to competitive challenges. Store layouts have been altered slightly; newer stores are slightly smaller overall than in the past, as the Company analyzes sales and profit contributions of individual departments. Departments change: cosmetics, photo and tobacco areas have new decor or product mix; and new departments appear: coming Medi Marts will include yarn, lamp, "Mod Shop", gift and sporting goods sections.

Levin reports that "It is gratifying to see the nationwide trend toward advertising and posting of prescription drug prices, as evidenced by legislative proposals being made in many parts of the country. These changes from traditional drug store marketing concepts can be of real benefit to the average consumer; and they are right in line with our Medi Mart operating philosophy. We endorse them strongly."

He also reports that as a public service, the chain's 19 stores carry the latest comprehensive information from the Department of Health, Education and Welfare on subjects of importance to many people – from prevention of venereal disease to drug abuse.

PERKINS TOBACCO SHOPS. Perkins, oldest (founded 1862) and one of the newest of The Stop & Shop Companies (acquired 1969), sustained excellent growth in sales and earnings for 1971. General Manager Stephen C. Espo reports that seven new stores were opened – four in major Shopping Center Mall locations in Portland, Maine; Worcester, Massachusetts; Meriden and Enfield Square, Connecticut; and three within new Bradlees stores in South Fall River and Springfield, Massachusetts and Stratford, Connecticut.

Perkins broadened product lines during the year, further refining its male-oriented gift boutique departments, now in nine Mall store locations. Featured lines include tobacco-related products – pipe racks, humidors, ornate ash trays; plus "Executive Games", bar accessories, flasks, and greeting cards.

Espo points out that "Perkins today is the leading retailer of tobacco and related products in New England," with a 33 store network of stores throughout New England. Although several new stores are planned for 1972, including the Company's first New Jersey store, the pace of expansion will lessen somewhat as the Perkins group concentrates its efforts on consolidating marketing and distribution strength after two years of accelerated expansion. The Perkins label will appear on more and more top quality lines of cigars, pipes and tobaccos, in line with the effort to project an even stronger premium quality name – at reasonable prices. Perkins will be a more and more influential name in tobacco and sundries retailing as we move further into the seventies.

AT MARLBOROUGH, A REVOLUTION IN MEAT PROCESSING

In February 1971 Ralph Nader, addressing the Western States Meat Packers Association in San Francisco, advised "You must become more concerned with the possible harmful effects of environmental and chemical residues on humans . . . public pressure is increasing . . . unless you act now, all your excuses will fall by the wayside . . ." He was stressing the dangerous long range effects of pesticides, antibiotics, hormones, and bacteria from meat.

Coincidentally, soon afterward, a critical report on the U. S. Department of Agriculture cited the need for better inspection methods and bacterial standards for meat products.

Consumer pressure grows for answers to these problems – directed not only at the meat industry and USDA, but also at the American supermarket industry.

But long before Mr. Nader's speech, The Stop & Shop Companies recognized both the responsibility and the opportunity to create a new consumer benefit unique to the industry; and a processing operation with a significant profit potential.

The concept was a central, refrigerated meat processing plant to prepare beef in an aseptic environment that would encourage natural aging for tenderness and taste. Late in 1968, the concept moved from drawing board to construction on 45 acres of former farm land in Marlborough, Massachusetts. The plant was completed in December 1971.

Arthur Norris, Stop & Shop's Vice President for Manufacturing, explains that "We have developed a method of removing virtually all surface bacteria from incoming shipments of beef. (We have received USDA approval for the process.) Following cleaning, the carcasses move through holding, cutting and wrapping stages under constant low temperature and in a close-to-sterile atmosphere. Vacuum-wrapped cuts of beef and ground beef will, by year-end 1972, be shipped to all Stop & Shop supermarkets. They will end up in our display cases as clean, fresh, aged and uniformly trimmed retail cuts."

That, in brief, is the purpose of "the greatest single investment ever made by The Stop & Shop Companies," according to Chairman Sidney R. Rabb.

Specifically, the plant is divided into three major areas: receiving and storage, processing, and shipping rooms. In the first of these, forequarters and hindquarters of beef are separated, scrutinized by both government and Stop & Shop inspectors, and examined for fat configuration and bacteria. Electronic scales then record the shipper's plant, part of the animal, and weight. Cleaning follows, and then cooling for 24 hours at 33 degrees Farenheit.

The processing room is under slightly higher air pressure than the rest of the plant. Thus, whenever a door is opened, air rushes out into less sterile areas, rather than inward. Here beef cuts are broken down by workers at each of eight conveyors. At the end of each conveyor, scales automatically record total weight of pieces in one metal basket, product identification, and date of production.

"Subprimal" cuts – portions ready for final retail cutting at the supermarket – are the end product at Marlborough. These are hydrostatically vacuum-sealed in a special wrapping.

Once sealed, the beef will age naturally in its completely sterile "cocoon", without additives of any kind. Between now and the time of final cutting at store level for sale, the beef, tightly sealed and at a closely controlled temperature, will reach a degree of tenderness and quality which, coupled with total bacteria control, gives meaning to the Marlborough process: "beef you've never been able to buy before."

Central, and crucial, to the success of the Marlborough program is maintenance of constant temperature and environmental control. Seventy-five refrigerated trucks, specially constructed for ease in cleaning, and with sophisticated all-year temperature controls will deliver meats directly to stores. All Stop & Shops throughout New England, New York and New Jersey will have installed, by mid-1972, a complete store sanitation system to accommodate the new, far higher sanitation standards demanded by the Marlborough meats.

And a massive training effort has prepared Store Managers, Meat Managers, Cutters, Warehousemen and Truck Drivers to handle the new shipments properly.

The Marlborough facility will also supply stores with ground beef, and fresh and pickled briskets. In addition, a fat rendering plant and bone crushing operation on the premises will result in new profit sources for the Company.

There are significant advantages to the consumer, and to Stop & Shop, from Marlborough processed beef. Our customers will realize:

- Wide range of choice at all times, and greater availability of fresh ground beef than ever before, due to a steady, controlled distribution flow from one central source. "Out of stocks" will be dramatically reduced.
- Standardization of quality and size, and consistency in trimming of individual cuts of beef in all Stop & Shop supermarkets.
- Demonstrably more tender meat, of consistently better flavor week after week.

- Beef which can be refrigerated at home longer without danger of spoilage.
- A guaranteed and honestly measurable percentage of "lean" in ground beef, due to centralized operations and control standards.

Stop & Shop will realize:

- Significant merchandising advantage as the benefits of Marlborough processing become known to our customers.
- Opportunity to bring greater efficiencies to meat purchasing through the use of the computer and the purchase of "whole cattle".
- New sources of income, from fat and bone processing.
- A meat operation that may show the way for new industry and government standards in meat processing.
- A significantly more sanitary and healthy working environment for many of our people in stores and at the plant.
- Improved quality and wholesomeness for all fresh meats purchased by Stop & Shop for sale. Pork, poultry, smoked meats and other lines are or will soon be received, stored and shipped from the warehouse portion of Marlborough. The same high purchasing specifications, close temperature tolerances, strict plant, trucking and store level sanitation guidelines will apply to them.

"The name for our beef processed at the Company's new meat facility, after many months of careful customer research," says Mr. Norris, "is 'Quality Protected Beef'. Quality is indeed protected to an impressive degree, at a time when greater and greater pressure is being placed on meat quality standards by consumer groups and by the federal government."

At Marlborough, Stop & Shop has developed a unique capacity to meet these more demanding standards for years to come. "Quality Protected Beef" – a significant investment in our future; and a technological breakthrough, in the tradition of the innovations of The Stop & Shop Companies.

CONSOLIDATED TEN-YEAR FINANCIAL SUMMARY

Fiscal Year Ended *(In Thousands)*	1/29/72	1/30/71
Sales	$ 907,734	789,950
Earnings:		
Pretax operating earnings	$ 4,500	10,052
Net operating earnings	$ 3,561	5,637
Extraordinary item, net of applicable income taxes	$ —	—
Total net earnings	$ 3,561	5,637
Reinvested in the business	$ 729	2,819
% of operating earnings to sales	.39%	.71%
Per share of common stock based on average number of shares outstanding during the year:		
Net operating earnings	$ 1.13	1.80
Total net earnings	$ 1.13	1.80
Cash dividends paid	$ 2,832	2,818
Cash dividends per share of common stock	$ .90	.90
Stock distributions	—	—
Current assets	$ 98,868	91,900
Current liabilities	$ 62,373	41,841
Working capital	$ 36,495	50,059
Current ratio	1.59	2.20
Total assets	$ 238,337	200,638
Retained earnings	$ 45,425	44,696
Stockholders' equity	$ 63,153	62,150
Number of shares outstanding less shares held in treasury at end of each fiscal year *(In Thousands)*	3,151	3,134
Stop & Shop Supermarkets:		
Opened and acquired	11	16
Closed	4	6
In operation at year end	156	149
Bradlees Department Stores:		
Opened and acquired	4	1
Closed	2	—
In operation at year end	53	51
Medi Mart Drug Stores:		
Opened	5	7
In operation at year end	18	13
Perkins Tobacco Shops:		
Opened and acquired	7	7
Closed	2	—
In operation at year end	33	28
FunStop Toy and Leisure Time Products Stores:		
Opened	2	1
In operation at year end	3	1

*In July 1966, the fiscal year end of the Company was changed to the Saturday nearest January 31 from the Saturday nearest Ju

**Includes $0.59 extraordinary item.

†53 Weeks

1/31/70	2/1/69†	1/27/68	1/28/67*	7/2/66	7/3/65†	6/27/64	6/29/63
720,478	654,822	566,361	507,506	469,850	423,173	391,418	337,685
14,123	11,811	9,645	8,243	5,789	8,867	8,177	6,772
7,445	6,736	6,113	5,456	3,463	5,254	4,907	4,035
—	—	1,773	—	—	—	—	—
7,445	6,736	7,886	5,456	3,463	5,254	4,907	4,035
4,691	4,001	5,391	3,037	1,180	3,579	3,734	2,896
1.03%	1.03%	1.08%	1.08%	.74%	1.24%	1.25%	1.19%
2.40	2.22	2.02	1.80	1.14	1.72	1.61	1.33
2.40	2.22	**2.61	1.80	1.14	1.72	1.61	1.33
2,754	2,735	2,495	2,419	2,283	1,675	1,173	1,139
.90	.90	.82½	.80	.75	.55	.40	.40
—	—	—	—	—	3%	3%	3%
87,263	67,700	52,830	50,778	46,300	41,297	34,976	31,745
54,294	35,224	28,114	28,733	24,900	23,488	19,383	17,864
32,969	32,476	24,716	22,045	21,400	17,809	15,593	13,881
1.61	1.92	1.88	1.77	1.86	1.76	1.80	1.78
188,305	158,432	133,028	124,992	120,745	112,824	105,395	101,945
41,877	36,825	32,824	27,433	24,973	23,793	21,831	19,791
59,251	53,040	48,659	43,254	40,795	40,453	36,801	33,106
3,129	3,048	3,025	3,024	3,024	3,070	2,955	2,871
4	9	8	5	4	2	4	14
3	5	9	10	6	4	4	9
139	138	134	135	139	141	143	143
1	6	7	5	7	7	6	7
3	—	—	2	1	—	—	—
50	52	46	39	36	30	23	17
3	3	—	—	—	—	—	—
6	3	—	—	—	—	—	—
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THE STOP & SHOP COMPANIES, INC.
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

Assets	January 29, 1972	January 30, 1971
	(In Thousands)	
Current assets:		
Cash	$ 5,150	$ 5,779
Marketable securities, at cost, approximating market	—	7,336
Accounts receivable	4,737	5,127
Insurance claims for fire loss, inventory and business interruption (Note 5)	5,106	8,111
Receivable from mortgagees for construction costs covered by executed mortgage agreements and from real estate affiliates	9,471	2,419
Inventories, at the lower of cost or market	72,753	60,613
Prepaid expenses	1,651	2,515
Total current assets	98,868	91,900
Fixed assets, at cost (Note 10):		
Land, buildings and improvements	107,980	85,018
Fixtures, machinery and equipment	72,102	64,075
	180,082	149,093
Less accumulated depreciation and amortization	58,359	54,174
	121,723	94,919
Leasehold improvements at cost less accumulated amortization	10,715	8,801
Net fixed assets	132,438	103,720
Book value of fixed assets affected by fire (Note 5)	2,725	2,725
Other assets:		
Notes receivable, etc. at cost	1,549	1,276
Deferred charges (Note 3)	2,757	1,017
Total other assets	4,306	2,293
	$238,337	$200,638

See accompanying notes to financial statements.

Liabilities and Stockholders' Equity	January 29, 1972	January 30, 1971
	(In Thousands)	
Current liabilities:		
Current portion of long-term debt	$ 4,637	$ 3,664
Accounts payable	44,978	26,951
Accrued expenses	8,536	6,792
Federal income taxes	4,222	4,434
Total current liabilities	62,373	41,841
Deferred federal income taxes	7,167	5,616
Due prior licensee for assets acquired	—	280
Long-term debt (Note 3):		
Capitalized lease obligation	9,665	—
Mortgage notes payable	52,404	45,951
Other notes payable	43,575	44,800
Total long-term debt	105,644	90,751
Stockholders' equity:		
Preferred stock. Authorized 500,000 shares. None issued or outstanding.	—	—
Common stock of $1 par value per share. Authorized 7,500,000 shares. Issued 3,210,940 shares (1970, 3,194,264 shares) (Note 4)	3,211	3,194
Capital in excess of par value of capital stock (Note 7)	15,824	15,567
Retained earnings (Note 3)	45,425	44,696
	64,460	63,457
Less cost of 60,299 shares in Treasury	1,307	1,307
Total stockholders' equity	63,153	62,150
	$238,337	$200,638

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS

	52 Weeks Ended	
	January 29, 1972	January 30, 1971
	(In Thousands)	
Retail sales	$907,734	$789,950
Cost and expenses (Note 5):		
Cost of goods sold, buying and warehousing costs	730,060	624,974
Selling, store operating and administrative expenses	157,109	139,744
Depreciation and amortization (Note 10)	9,843	9,419
Interest on mortgages	3,034	2,361
Other interest (net)	3,188	3,400
	903,234	779,898
Earnings before federal income taxes	4,500	10,052
Federal income taxes (Note 2)	939	4,415
Net earnings	3,561	5,637
Retained earnings at beginning of year	44,696	41,877
	48,257	47,514
Less cash dividends paid	2,832	2,818
Retained earnings at end of year	$ 45,425	$ 44,696
Earnings per share of common stock based on average number of shares outstanding during the year (Note 5)	$ 1.13	$ 1.80
Cash dividends per share of common stock	$ .90	$ .90

See accompanying notes to financial statements.

SUMMARY OF CHANGES IN FINANCIAL POSITION

	52 Weeks Ended	
	January 29, 1972	January 30, 1971
	(In Thousands)	
Funds provided:		
Net earnings	$ 3,561	$ 5,637
Less cash dividends paid	2,832	2,818
	729	2,819
Increase in deferred federal income taxes	1,551	817
Increase in long-term debt	5,228	25,353
Capitalized lease obligation (Note 3)	9,665	—
Sale of capital stock	274	80
Decrease in working capital	13,564	—
	$31,011	$29,069
Used as follows:		
Excess of expenditures for fixed assets over depreciation and amortization:		
Expenditures for fixed assets, net	$38,561	$16,824
Depreciation and amortization	9,843	9,419
	28,718	7,405
Increase in other assets	2,013	291
Notes payable, temporary borrowings-repayment	—	4,000
Due prior licensee for assets acquired	280	283
Addition to working capital	—	17,090
	$31,011	$29,069

See accompanying notes to financial statements.

ACCOUNTANTS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
ONE BOSTON PLACE
BOSTON, MASSACHUSETTS 02108

The Board of Directors and Stockholders
The Stop & Shop Companies, Inc.:

We have examined the consolidated balance sheet of The Stop & Shop Companies, Inc. and subsidiaries as of January 29, 1972 and the related statement of earnings and retained earnings and summary of changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, subject to the ultimate realization of the insurance claims for fire loss as described in Note 5 to the financial statements, such financial statements present fairly the financial position of The Stop & Shop Companies, Inc. and subsidiaries at January 29, 1972, the results of their operations and changes in financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

March 22, 1972

PEAT, MARWICK, MITCHELL & CO.

NOTES TO FINANCIAL STATEMENTS

1. Principles of Consolidation

The consolidated financial statements include the accounts for the parent company and all subsidiaries.

2. Federal Taxes Charged to Income

	1971	1970
	(In Thousands)	
Current	$ 146	$ 3,730
Investment Credit	(758)	(132)
Deferred	1,551	817
	$ 939	$ 4,415

3. Long-Term Debt

	(In Thousands)
Industrial Revenue Bonds 4.7% to 5.75% maturing annually in increasing amounts from $180,000 to $685,000 from 1973 to 1998.	$ 9,665
Mortgage notes, 4% to 10½% (weighted average of 7%), maturing at annual rates of approximately $3,100,000 through 1977, at $2,200,000 from 1978 to 1992, and thereafter at smaller varying amounts through 1996.	52,404
Promissory note 7.6% maturing $2,450,000 annually from 1973 to 1988 and the balance payable in 1989.	43,575
	$105,644

The mortgage notes, although not signed by the Company or its subsidiaries, are secured by land, buildings, and improvements costing approximately $85,641,000 and by assignments of intercompany lease agreements.

Under the terms of the 7.6% Promissory Note, through 1989 working capital must be maintained at $20,000,000 and certain restrictions with respect to payment of cash dividends or purchase or retirement of capitai stock are in effect. As of January 29, 1972, approximately $6,700,000 of retained earnings was not so restricted.

In 1968 the Company contracted with the City of Marlborough, Massachusetts for the lease of a meat processing and packaging plant to be constructed by the City from the proceeds of an issue of $10,000,000 of Industrial Revenue Bonds. The lease expires in 1998 and annual rentals will approximate $700,000. Stop & Shop has the right to terminate the lease prior to the expiration date and purchase the facility at a price determined principally by the amount required to enable the City to redeem the outstanding Bonds. Construction was completed during the current year and the Company has recorded the land, buildings and equipment on the books as assets at cost and capitalized the related lease obligation as long-term debt.

Certain research, development and start-up costs for the meat processing and packaging plant have been deferred and will be amortized over a five year period commencing in the next fiscal year.

4. Stock Options

Options under the Company's new Qualified Plan are granted at 100% of market value at date of grant and expire in five years. Generally, options are exercisable in four equal cumulative annual installments commencing 18 months after grant date.

At January 29, 1972 options to purchase 52,008 shares were outstanding (38,170 presently exercisable) at prices ranging from $16.38 to $34.00 per share.

Outstanding options include options to purchase 188 shares under the old Restricted Plan granted at 95% of market price on the grant date. Changes during the current year are summarized as follows:

	Number of Shares	
	Issuable Under Options Granted	Available For Option
Balance at beginning of year	69,984	101,397
Exercised at prices ranging from $15.88 to $19.00 per share-total $275,000 (Total market value on dates exercised $433,000)	(16,676)	—
Options granted	6,200	(6,200)
Cancellations and expirations	(7,500)	7,500
	52,008	102,697

The number of shares under options at January 29, 1972 and related prices per share have been adjusted for stock dividends and stock splits.

5. Insurance Claims

In August, 1969, the Company's principal grocery distribution warehouse, located in Readville, Massachusetts, together with its related operating equipment and inventory contents was destroyed by fire. At the time of the fire the Company

had in effect insurance coverage as to which several different insurers participated in various amounts, providing aggregate coverage for property damage and business interruption loss up to $30 million with respect to such location.

The Company has received insurance payments on account of such loss aggregating $19,202,000 ($18,984,500 of which had been received prior to January 29, 1972) from various of the insurers providing coverage for the first $20 million of such loss. The Company has instituted legal proceedings for the recovery of the $798,000 remaining unpaid of this first $20 million of loss, and in the opinion of its counsel should prevail in such proceedings. With respect to the $19,202,000 of proceeds referred to above, certain insurers have reserved the right to refunds up to $4,562,000 under certain circumstances which in the opinion of Company counsel are unlikely to occur.

Arbitration proceedings between the Company and the insurer whose policy covers loss between $20 million and $30 million have resulted in an award in favor of the Company of $10 million. The Company and this insurer are presently engaged in litigation relative to the liability of such insurer under certain provisions of the policy. Based on the opinion of its counsel, the Company believes such insurer is liable to reimburse the Company for such loss in excess of $20 million up to the maximum $30 million.

In prior years, the Company accrued on its books amounts applicable to the inventory destroyed (approximating book value thereof), the actual costs of debris removal and other incidental expenses, and business interruption claims from the date of the fire in August, 1969. No fire-related accruals have been made in the consolidated statement of earnings for the current fiscal year; for the year ended January 30, 1971 $8,703,000 was accrued on account of business interruption claims and credited to costs and expenses.

Pending ultimate recovery under all applicable insurance policies, the book value of the building and related equipment destroyed in the 1969 fire is shown separately in the balance sheet as of January 29, 1972. Any significant difference between such book value and the amount actually recovered with respect thereto may eventually be shown, net of related taxes, as an extraordinary item in the Company's statement of earnings.

6. Rental Commitments

At January 29, 1972 the total minimum annual rentals payable to outsiders by the Company and its subsidiaries under leases amount to approximately $13,000,000 exclusive of real estate taxes, other expenses and additional rents based on percentage of sales. Of the minimum annual rental commitment approximately 55% related to leases expiring within fifteen years and approximately 92% to leases expiring within twenty years.

7. Capital in Excess of Par Value of Capital Stock

	1971	1970
	(In Thousands)	
Balance at beginning of year	$15,566	$15,491
Add:		
Excess over par value of proceeds from sale of capital stock to employees under stock option plans	258	75
Balance at end of year	$15,824	$15,566

8. Retirement Plan

The Company's non-contributory retirement plan is available to all employees meeting age and minimum length of service requirements other than certain union employees covered by union-sponsored plans. The Company's policy is to fund retirement costs accrued, which in the current year amounted to approximately $574,000. As of January 29, 1972 total plan assets were more than sufficient to cover all vested benefit liabilities.

9. Wholly-Owned Realty Subsidiaries — Combined Balance Sheets

	January 29, 1972	January 30, 1971
	(In Thousands)	
Assets:		
Cash and receivables	$ 9,502	$ 498
Due from parent company	—	9,743
Fixed assets at cost:		
Land, buildings and improvements	85,641	73,837
Less accumulated depreciation and amortization	21,340	19,062
	64,301	54,775
Book value of fixed assets affected by fire (Note 5)	2,023	2,023
Other assets	574	514
	$76,400	$67,553
Liabilities:		
Current installments of long-term debt	$ 2,917	$ 3,384
Due to parent company	1,570	—
Accounts payable and accrued expenses	1,100	1,107
Deferred federal income taxes	2,260	2,243
Long-term debt, less current installments above (Note 3)	52,403	45,951
Parent company's equity:		
Capital stock	64	64
Retained earnings	16,086	14,804
	$76,400	$67,553

10. Depreciation and Amortization Policies

Depreciation of fixed assets is computed on the straight-line method at rates which are sufficient to amortize the costs over their estimated useful lives:

Buildings	20 to 40 years
Equipment and fixtures	3 to 15 years
Automotive equipment	4 years

Cost of leasehold improvements is amortized on the straight-line method over periods of 10 to 15 years, or the life of the lease, if shorter.

For federal income tax purposes, accelerated methods of computing depreciation are used wherever applicable. Accordingly, provision has been made currently for deferred federal income taxes.

OFFICERS AND DIRECTORS

THE STOP & SHOP COMPANIES INC.
- Sidney R. Rabb, Chairman of the Board and Chief Executive Officer*
- Irving W. Rabb, Vice Chairman of the Board and Chairman, Executive Committee*
- Avram J. Goldberg, President and Chief Operating Officer*
- Frank A. Crowley, Vice President, Real Estate
- Anthony DiNardo, Vice President, Personnel and Marketing Services
- Harold E. Fine, Vice President, Engineering and Construction*
- J. David Fine, Vice President, Labor Relations
- Albert S. Frager, Financial Vice President and Treasurer*
- Paul C. Kelly, Vice President, Administration
- Joseph L. Riemer, Jr., Vice President, Technical Services
- Bernard Solomon, Vice President, Civic, Government and Community Affairs
- Louis P. Steinberg, Vice President, Advertising, Design and Sales Promotion
- Lloyd D. Tarlin, Senior Vice President*
- Norman C. Peterson, Controller*
- Arthur S. Robbins, Assistant Financial Vice President and Assistant Treasurer*
- Donald J. Hurley, Clerk*

STOP & SHOP SUPERMARKETS
- Richard F. Spears, Vice President*
- Charles R. Carroll, Jr., Vice President, New York-New Jersey*
- Spyros A. Gavris, Vice President, Meat Operations
- Anast W. Giokas, Vice President, Sales
- Carol R. Goldberg, Vice President, Boston
- Sidney L. Goldstein, Vice President, Connecticut
- Ralph J. Lordi, Vice President, Groceries
- Donald W. Stowbridge, Vice President, Stores Operations

MANUFACTURING AND QUALITY CONTROL
- Arthur Norris, Vice President*
- William Tully, Director of Manufacturing Operations

BRADLEES DEPARTMENT STORES
- Robert J. Futoran, President
- Raymond Doyle, Vice President and Merchandise Controller
- C. Robert Peacock, Vice President, Operations and Accounting
- Robert M. Pliner, Vice President and General Merchandise Manager
- Sylvia P. Shaine, Vice President and General Merchandise Manager
- Richard L. Shuman, Vice President, Sales Promotion
- Anthony McAlear, General Manager, FunStop

MEDI MART DRUG STORES
- Robert J. Levin, Vice President

CHARLES B. PERKINS TOBACCO SHOPS
- Robert J. Levin, President
- Stephen C. Espo, General Manager

E. L. NASON CO. INC. and FARGO POTATO COMPANY
- Philip Lane, General Manager

*Corporate Officer

William Applebaum
: Emeritus Lecturer on Food Distribution and Comparative Marketing, Harvard Graduate School of Business Administration.

Norman L. Cahners
: Chairman of the Board, Cahners Publishing Company

Albert S. Frager
: Financial Vice President and Treasurer

Donald A. Gannon
: Retired President

Avram J. Goldberg
: President and Chief Operating Officer

Donald J. Hurley
: Partner, Goodwin, Proctor & Hoar

Irving W. Rabb
: Vice Chairman of the Board and Chairman, Executive Committee

Norman S. Rabb
: Retired Vice Chairman of the Board

Sidney R. Rabb
: Chairman of the Board and Chief Executive Officer

Sidney L. Solomon
: Director, Member of the Executive Committee, Federated Department Stores, Inc.

Lloyd D. Tarlin
: Senior Vice President

William W. Wolbach
: President, The Boston Company, Chairman of the Board, Boston Safe Deposit and Trust Company

ANNUAL MEETING:
May 23, 1972 at 1:30 P.M. at the Company's offices,
393 D Street, Boston

TRANSFER AGENT:
The First National Bank of Boston

REGISTRAR:
The National Shawmut Bank of Boston

AUDITOR:
Peat, Marwick, Mitchell & Co.

GENERAL OFFICES:
393 D Street, Boston, Massachusetts 02210

SHARES TRADED ON:
Boston Stock Exchange
American Stock Exchange

THE STOP & SHOP COMPANIES